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LASSEN FAMILY SERVICES, INC.

FINANCIAL STATEMENTS

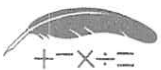
June 30, 2008



Hathaway & Ksenzulak, LLP

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INDEPENDENT AUDITORS' REPORT

Hathaway & Ksenzulak, LLP

Certified Public
Accountants

1681 E. Cypress Ave.
Redding, California
96002

530.222.2898
Fax 530.222.2980

Brent Hathaway, CPA
Karina C. Lapp, CPA
John Ksenzulak, CPA
James Viola Jr., CPA
Kathi Hibner, CPA
Becci Knight, CPA

To the Board of Directors
Lassen Family Services, Inc.

We have audited the accompanying statement of financial position of Lassen Family Services, Inc. (a nonprofit public benefit Corporation) as of June 30, 2008, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of Lassen Family Services, Inc.'s management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Lassen Family Services, Inc. as of June 30, 2008, and the changes in financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated January 27, 2009, on our consideration of Lassen Family Services, Inc.'s internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Hathaway & Ksenzulak, LLP

January 27, 2009

LASSEN FAMILY SERVICES, INC
Statement of Financial Position
June 30, 2008

ASSETS

CURRENT ASSETS

Cash	\$ 124,747
Grants Receivable	174,734
Other Receivables	<u>271</u>

TOTAL CURRENT ASSETS	<u>299,752</u>
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PROPERTY AND EQUIPMENT, NET	<u>793,165</u>
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OTHER ASSETS - DEPOSITS	<u>669</u>
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TOTAL ASSETS	<u><u>\$ 1,093,586</u></u>
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LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Accounts Payable	\$ 10,951
Accrued Payroll Taxes	14,442
Accrued Vacation	11,760
Current Portion of Capital Lease Obligation	2,368
Current Portion of Long-Term Debt	<u>18,304</u>

TOTAL CURRENT LIABILITIES	<u>57,825</u>
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LONG-TERM DEBT

Capital Lease Obligation	4,207
Long-Term Debt	<u>541,662</u>

TOTAL LONG-TERM DEBT	<u>545,869</u>
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TOTAL LIABILITIES	<u>603,694</u>
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NET ASSETS - UNRESTRICTED	<u>489,892</u>
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TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 1,093,586</u></u>
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See accompanying notes to financial statements.
Hathaway & Ksenzulak, LLP

LASSEN FAMILY SERVICES, INC.
Statement of Activities
For the Year Ended June 30, 2008

	<u>Program</u>	<u>Administrative</u>	<u>Fundraising</u>	<u>Total</u>
SUPPORT AND REVENUE				
Donations	\$ 32,353	\$ —	\$ —	\$ 32,353
Fundraising	—	—	3,205	3,205
Grants	813,024	—	—	813,024
In-Kind Program Donations	12,890	—	—	12,890
Other	—	8,298	—	8,298
TOTAL SUPPORT AND REVENUE	<u>858,267</u>	<u>8,298</u>	<u>3,205</u>	<u>869,770</u>
EXPENSES				
Accounting & Professional Fees	11,164	—	—	11,164
Advertising	13,999	—	—	13,999
Answering Service	1,351	—	—	1,351
Bank Charges	1,130	—	—	1,130
Cable	613	—	—	613
Cellular	1,781	—	—	1,781
Client Expenses:				
Lodging	1,567	—	—	1,567
Meals/Grocery	6,326	—	—	6,326
Transportation	2,554	—	—	2,554
General	738	—	—	738
Depreciation	40,695	—	—	40,695
Donated Program Supplies	12,890	—	—	12,890
Dues and Publications	—	1,518	—	1,518
Education Supplies	5,098	—	—	5,098
Fingerprinting	563	—	—	563
Food for Groups	5,643	—	—	5,643
Fundraising	—	—	1,769	1,769
Grant Writer	2,500	—	—	2,500
Insurance	1,849	—	—	1,849
Insurance Bond	18,311	—	—	18,311
Interest	24,787	—	—	24,787
Internet	668	—	—	668
Janitorial	25	—	—	25
Legal Fees	7,834	—	—	7,834
Legal Settlement	—	36,000	—	36,000
Kids Camp	3,057	—	—	3,057
Mileage	1,879	—	—	1,879
Miscellaneous	3,131	—	—	3,131
Office Equipment under \$1,000	5,529	—	—	5,529
Office Expense	21,099	—	—	21,099
Pagers	196	—	—	196
Payroll Expenses	641,260	5,198	—	646,458
Postage	1,064	—	—	1,064



See accompanying notes to financial statements.
Hathaway & Ksenzulak, LLP

LASSEN FAMILY SERVICES, INC.
Statement of Activities
For the Year Ended June 30, 2008

	<u>Program</u>	<u>Administrative</u>	<u>Fundraising</u>	<u>Total</u>
EXPENSES - (Continued)				
Repairs and Maintenance	20,819	—	—	20,819
Security	733	—	—	733
Supervision Fees	4,300	—	—	4,300
Shelter Supplies	4,664	—	—	4,664
Taxes and Licenses	38	—	—	38
Telephone	10,057	—	—	10,057
Travel/Training	17,014	—	—	17,014
Utilities	28,366	—	—	28,366
Van Expense	1,080	—	—	1,080
Volunteer Recognition	<u>894</u>	<u>—</u>	<u>—</u>	<u>894</u>
TOTAL EXPENSES	<u>\$ 927,266</u>	<u>\$ 42,716</u>	<u>\$ 1,769</u>	<u>971,751</u>
CHANGE IN NET ASSETS				<u>(101,981)</u>
NET ASSETS, BEGINNING OF YEAR				<u>591,873</u>
NET ASSETS, END OF YEAR				<u>\$ 489,892</u>



See accompanying notes to financial statements.
Hathaway & Ksenzulak, LLP

LASSEN FAMILY SERVICES, INC.
Statement of Cash Flows
For the Year Ended June 30, 2008

CASH FLOWS FROM OPERATING ACTIVITIES

Change in Net Assets	\$ (101,981)
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Adjustments to Reconcile Change in Net Assets
to Net Cash Provided by Operating Activities:

Depreciation	40,695
In-Kind Donations Revenue	12,890
In-Kind Donations Expense	(12,890)
(Increase) Decrease in:	
Grants Receivable	86,378
Deposits	50
Increase (Decrease) in:	
Accounts Payable	(5,914)
Accrued Payroll Taxes	10,173
Accrued Vacation	4,484
Deferred Revenue	<u>(4,750)</u>

NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>29,135</u>
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CASH FLOWS FROM INVESTING ACTIVITIES

Purchase of Property and Equipment	<u>(21,231)</u>
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NET CASH USED BY INVESTING ACTIVITIES	<u>(21,231)</u>
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CASH FLOWS FROM FINANCING ACTIVITIES

Payments on Long-Term Debt	(17,499)
Payments on Capital Lease Obligation	<u>(926)</u>

NET CASH USED BY FINANCING ACTIVITIES	<u>(18,425)</u>
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NET DECREASE IN CASH	(10,521)
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CASH, BEGINNING OF YEAR	<u>135,268</u>
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CASH, END OF YEAR	<u>\$ 124,747</u>
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SUPPLEMENTAL CASH FLOW INFORMATION

Interest Paid	<u>\$ 24,787</u>
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See accompanying notes to financial statements.
Hathaway & Ksenzulak, LLP

LASSEN FAMILY SERVICES, INC.
Notes to Financial Statements
June 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization - Lassen Family Services, Inc., (the Corporation) is a not-for-profit voluntary health and welfare organization located in Susanville, California, and established as a multi-disciplinary victim service center. The Corporation's primary funding source is federal and state grants.

The Corporation was formed April 12, 1979, and is exempt from federal and state income tax under IRC Section 501(c)(3) and the related California revenue and taxation code section.

Financial Statement Presentation - The accompanying financial statements have been prepared on the accrual basis of accounting. Net assets and changes therein are classified and reported as follows:

Unrestricted Net Assets - Net assets that are not subject to grantor/donor-imposed stipulations.

Temporarily Restricted Net Assets - Net assets subject to grantor/donor-imposed stipulations that may or will be met, either by actions of the Corporation and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. There are no temporarily restricted net assets as of June 30, 2008.

Permanently Restricted Net Assets - Net assets subject to donor-imposed stipulations that may be maintained permanently by the Corporation. Generally, the donors of these assets permit the Corporation to use all or part of the income earned on any related investments for general or specific purposes. There are no permanently restricted net assets as of June 30, 2008.

Contributions - Cash contributions other than grants are recorded when received. Non-cash contributions of supplies are recorded at the fair market value on the date of the donation. However, records are maintained for non-cash contributions of trained volunteer service hours and are disclosed in the notes to financial statements at their fair value. The Corporation has no unconditional promises to give.

Property and Equipment - Property and equipment acquired by Lassen Family Services, Inc., are considered to be owned by Lassen Family Services, Inc. Grantor agencies retain a reversionary interest in property acquired with grant funds. Such property shall not be disposed of without written approval from each granting agency.

Lassen Family Services, Inc., follows the practice of capitalizing all expenditures for property and equipment in excess of \$1,000.

Property and equipment are recorded at cost. Depreciation is provided on a straight line basis over the estimated useful lives of assets. Gains and losses from sale or disposition of assets are included in income. Depreciable lives are as follows:

Leasehold Improvements	15 years
Vehicles	5 years
Furniture and Equipment	5 years
Buildings	40 years



LASSEN FAMILY SERVICES, INC.
Notes to Financial Statements
June 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

Property and Equipment - Donations of property and equipment are recorded as support at their estimated fair value at the date of donation. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted support. Absent donor stipulations regarding how long those donated assets must be maintained, Lassen Family Services, Inc., reports expirations of donor restrictions when the donated or acquired assets are placed in service. Lassen Family Services, Inc., reclassifies temporarily restricted net assets to unrestricted net assets at that time.

Functional Allocation of Expenses - The costs of providing the Corporation's various programs and supporting services have been summarized on a program basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefitted.

Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

NOTE 2 - CASH

Concentrations of Credit Risk Arising from Cash Deposits in Excess of Insured Limits

Cash is held in a Susanville, California bank and is insured up to \$100,000. At June 30, 2008, Lassen Family Services uninsured cash balance was \$30,870. The carrying value approximates market value. Subsequent to year-end, the Federal Deposit Insurance Corporation (FDIC) raised the insurable amount to \$250,000.

NOTE 3 - GRANTS RECEIVABLE

Grants receivable are unrestricted net assets. As grant funding conditions are met, revenue is recognized and deemed fully collectible by management. Grants receivable as of June 30, 2008 are as follows:

CHAT 07/08	\$ 21,995
H & HS OES	52,811
MCH-SARC	9,904
MCH	55,352
Judicial Council	5,800
SARC	<u>28,872</u>
Total	<u>\$ 174,734</u>



LASSEN FAMILY SERVICES, INC.
Notes to Financial Statements
June 30, 2008

NOTE 4 - PROPERTY AND EQUIPMENT

Changes in property and equipment for the year ended June 30, 2008 are as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Disposals</u>	<u>Ending Balance</u>
Land	\$ 143,900	\$ —	\$ —	\$ 143,900
Building	647,608	—	—	647,608
Furniture	16,579	—	—	16,579
Equipment	73,770	20,704	(23,994)	70,480
Vehicle	51,170	—	—	51,170
Real Property Improvements	<u>31,714</u>	<u>8,028</u>	<u>—</u>	<u>39,742</u>
Total	<u>964,741</u>	<u>28,732</u>	<u>(23,994)</u>	<u>969,479</u>
Accumulated Depreciation	<u>(159,613)</u>	<u>(40,695)</u>	<u>23,994</u>	<u>(176,314)</u>
Total	<u>\$ 805,128</u>	<u>\$ (11,963)</u>	<u>\$ —</u>	<u>\$ 793,165</u>

NOTE 5 - LONG-TERM DEBT

4.375% note payable to the USDA. Monthly payments are \$1,336. The note is secured by real estate and is due March, 2034.

\$ 244,788

4.375% note payable to the USDA. Monthly payments are \$2,201. The note is secured by real estate and is due May, 2024.

315,178

559,966

Less Current Portion

(18,304)

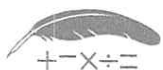
\$ 541,662

Maturities on long-term debt are as follows at June 30:

2009	\$ 18,304
2010	19,127
2011	19,981
2012	20,873
2013	21,774
Later Years	<u>459,907</u>

The fair market value of the note approximates the carrying value.

\$ 559,966



Hathaway & Ksenzulak, LLP

LASSEN FAMILY SERVICES, INC.
Notes to Financial Statements
June 30, 2008

NOTE 6 - CONTRIBUTED VOLUNTEER SERVICES

Volunteer services are accounted for all trained volunteers performing program services. These services are valued at \$14 per hour and are allocated to grant funded programs by services performed and hours required to meet grantor conditions for in-kind match. Volunteer services satisfying grantor in-kind match conditions totaled \$94,488 for the year ended June 30, 2008. The value of contributed services for trained volunteers does not meet generally accepted accounting principles criteria for inclusion, and is thus not included on the Corporation's financial statements.

NOTE 7 - COMMITMENTS

Lassen Family Services, Inc., has a \$50,000 line of credit with a bank. There were no amounts due on the line of credit at June 30, 2008.

NOTE 8 - FLEXIBLE BENEFIT PLAN

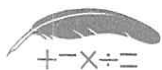
Lassen Family Services, Inc., sponsors a flexible benefit plan. All eligible employees may participate. Employees enter into a salary conversion arrangement. Benefits offered in the plan include (a) uninsured medical and dental expense reimbursement; (b) non-related dependent care expense reimbursement; © health and group term life premium benefits; and (d) taxable cash payments in the form of a regular salary.

NOTE 9- JUDICIAL COUNCIL INFORMATION

	Grant Year <u>9/1/07-8/31/08</u>	Grant Year <u>9/1/06-8/31/07</u>
Judicial Council information for the year ended June 30, 2008:		
Revenues	<u>\$ 21,000</u>	<u>\$ 8,400</u>
Expenses	<u>\$ 27,462</u>	<u>\$ 13,231</u>

NOTE 10- MATERNAL AND CHILD HEALTH INFORMATION

	Grant Year <u>7/1/07-6/30/08</u>
Maternal and Child Health information for the year ended June 30, 2008:	
Revenues	<u>\$ 165,997</u>
Expenses	<u>\$ 221,331</u>



LASSEN FAMILY SERVICES, INC.

Notes to Financial Statements

June 30, 2008

NOTE 11- OES GRANT INFORMATION

	06/07 Audit	07/08 Audit	Total by Category (From Report)	Under/Over Reported
<u>AT06031209 (06/07)</u>				
Personal Services	\$ 62,204	\$ 27,719	\$ 89,998	\$ (75)
In-Kind Match	<u>8,653</u>	<u>—</u>	<u>8,653</u>	<u>0</u>
Sub-Total Personal	<u>70,857</u>	<u>27,719</u>	<u>98,651</u>	<u>(75)</u>
Operating Expenses	16,839	21,422	38,187	74
In-Kind Match	<u>25,905</u>	<u>—</u>	<u>25,905</u>	<u>—</u>
Sub-Total Operating	<u>42,744</u>	<u>21,422</u>	<u>64,092</u>	<u>74</u>
Equipment	<u>7,840</u>	<u>2,208</u>	<u>10,048</u>	<u>—</u>
 TOTAL	 <u>\$ 121,441</u>	 <u>\$ 51,349</u>	 <u>\$ 172,791</u>	 <u>\$ (1)</u>

The match for the 06/07 grant year was not claimed on the 201's until September 2008. It has been audited that Lassen Family Services, Inc. used \$8,653 towards Personal Service In-Kind match from volunteer hours and \$25,905 towards operating expenses In-Kind match from rental space provided for therapy sessions in the schools.

	07/08 Audit	Total by Category (From Report)	Under/Over Reported
<u>AT07041209 (07/08)</u>			
Personal Services	\$ 53,549	\$ 54,048	\$ (499)
In-Kind Match	<u>18,479</u>	<u>18,479</u>	<u>—</u>
Sub-Total Personal	72,028	72,527	(499)
Operating Expenses	<u>17,345</u>	<u>16,844</u>	<u>501</u>
 TOTAL	 <u>\$ 89,373</u>	 <u>\$ 89,371</u>	 <u>\$ 2</u>

The match for the 2007/2008 grant year was Personal Service In-Kind Match from the Crisis Line volunteer hours, CHAT volunteer hours, Therapist supervision donation, and Cash Match of money to run the clothes closet.

	07/08 Audit	Total by Category (From Report)	Under/Over Reported
<u>DV07221209 (07/08)</u>			
Personal Services	\$ 134,279	\$ 134,779	\$ (500)
In-Kind Match	<u>39,497</u>	<u>39,497</u>	<u>—</u>
Sub-Total Personal	173,776	174,276	(500)
Operating Expenses	<u>48,171</u>	<u>47,672</u>	<u>499</u>
 TOTAL	 <u>\$ 221,947</u>	 <u>\$ 221,948</u>	 <u>\$ (1)</u>



Hathaway & Ksenzulak, LLP

LASSEN FAMILY SERVICES, INC.
Notes to Financial Statements
June 30, 2008

NOTE 11 - OES GRANT INFORMATION - (Continued)

	07/08 Audit	Total by Category (From Report)	Under/Over Reported
<u>RC07141209 (07/08)</u>			
Personal Services	\$ 91,298	\$ 91,970	\$ (672)
In-Kind Match	<u>20,752</u>	<u>20,752</u>	<u>—</u>
Sub-Total Personal	112,050	112,722	(672)
Operating Expenses	<u>22,039</u>	<u>21,918</u>	<u>121</u>
TOTAL	<u>\$ 134,089</u>	<u>\$ 134,640</u>	<u>\$ (551)</u>

NOTE 12 - CAPITAL LEASES

The Corporation leases a copier from Martin Leasing under a capital lease. The economic substance of the lease is that the Corporation is financing the acquisition of the assets through this lease, and accordingly, they recorded it in the Corporation's assets and liabilities.

Future minimum payments at June 30, are as follows:

2008-2009	\$ 2,368
2009-2010	2,588
2010-2011	<u>1,619</u>
TOTAL	<u>\$ 6,575</u>

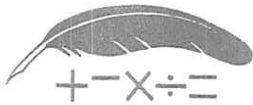
NOTE 13 - CONTINGENT LIABILITY

Lassen Family Services, Inc. is involved in a lawsuit against the Corporation, arising in the normal course of business, regarding termination issues. The liability, if any, is believed to be not in excess of the amount covered by insurance.

NOTE 14 - LEGAL SETTLEMENTS

Lassen Family Services, Inc. settled a lawsuit for \$36,000 related to allegations of unpaid wage claims. The Corporation has recorded \$5,198 in accrued payroll taxes payable in connection with deemed wages.





**Hathaway &
Ksenzulak, LLP**
Certified Public
Accountants

1681 E. Cypress Ave.
Redding, California
96002

530.222.2898
Fax 530.222.2980

Brent Hathaway, CPA
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Kathi Hibner, CPA
Becci Knight, CPA

**Independent Auditors' Report on Internal
Control Over Financial Reporting and on
Compliance and Other Matters Based on an Audit of
Financial Statements Performed in Accordance
With Government Auditing Standards**

To the Board of Directors
Lassen Family Services, Inc.

We have audited the financial statements of Lassen Family Services, Inc. (the Corporation) as of and for the year ended June 30, 2008, and have issued our report thereon dated January 6, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Corporation's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Corporation's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described below to be significant deficiencies in internal control over financial reporting.

2008-1 - Significant Audit Adjustments

We posted a total of 12 audit adjustments that totaled \$197,350. The change in net assets as a result of our adjustments was a decrease of \$67,324.

We reduced grants receivable by \$73,948 because the total amounts of the grants had been posted as receivable although the grant funds had not been earned because the grants extended beyond 6/30/08 and not all of the requirements had been met to receive the remaining funds.

We corrected In-Kind Program Supplies revenue by \$25,780 because the entry had been entered in reverse. The actual revenue was \$12,890.

We reduced Property and Equipment by \$23,994, to record the disposal of property and equipment.

We added \$21,847 to the cash account for a deposit that cleared the bank on 6/24/08; it was erroneously posted to Quickbooks on 7/1/08.

We recommend that someone with knowledge of Not-for Profit and governmental accounting be hired to oversee your bookkeeping prior to printing any financial statements to ensure that the financial statements are prepared in accordance with accounting principles generally accepted in the United States of America.

2008-2 - Cash Disbursements

While conducting cash disbursement testing, we noted that checks were issued out of sequence and checks were missing from the paper records and the Quickbooks file. Upon inquiry we found that check stock had been inadvertently left in the printer and other information had been printed on several checks. We recommend that unusable checks be voided and kept in a file and that all voided checks be recorded in the Quickbooks program.

We noted that cash disbursements for payroll taxes and other items for which no invoice was available did not have any supporting documentation attached. There was only a check stub in the file. We recommend that supporting documentation such as a control sheet, be prepared to provide a more thorough way of documenting such disbursements.

Cash disbursement control procedures should be designed to be practicable and to provide reasonable assurance that no unauthorized payments are made, all liabilities are timely paid, and payments are accurately recorded. These controls include sequential ordering of checks as they are released for use. We recommend that strict numerical control be kept over all checks issued and that checks be issued in sequence as much as possible.

2008-3 - Financial Statement Preparation

Preparation of Financial Statements and Reporting Statement on Auditing Standards (SAS)112 requires the Organization to have someone with sufficient knowledge of United States Generally Accepted Accounting Principles (GAAP) and Governmental Accounting to prepare (GAAP) financial statements. We recommend that someone that has sufficient knowledge of both GAAP and governmental accounting be hired to prepare or oversee preparation of monthly financial reports and year-end unaudited financial statements.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and accordingly would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the reportable conditions reported above, we consider items 2008-1, 2008-2 and 2008-3 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Corporation's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.



We noted certain matters that we reported to management of the Corporation in a separate letter dated January 6, 2009.

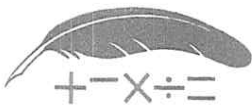
This report is intended for the information and use of the Board of Directors, management, others within the organization and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Hathaway & Ksenzulak, LLP

January 27, 2009



Hathaway & Ksenzulak, LLP



**Hathaway &
Ksenzulak, LLP**
Certified Public
Accountants

1681 E. Cypress Ave.
Redding, California
96002

530.222.2898
Fax 530.222.2980

Brent Hathaway, CPA
Karina C. Lapp, CPA
John Ksenzulak, CPA
James Viola Jr., CPA
Kathi Hibner, CPA
Becci Knight, CPA

MANAGEMENT LETTER

To the Board of Directors and Management
Lassen Family Services, Inc.

In planning and performing our audit of the financial statements of Lassen Family Services, Inc. for the year ended June 30, 2008, we considered the Organization's internal control structure for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control structure.

During our audit, we noted certain matters involving the internal control structure and other operational matters that are presented for your consideration. Our comments and recommendations, all of which have been discussed with appropriate members of management, are intended to improve the internal control structure or result in other operating efficiencies. We will be pleased to discuss these comments in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations. Our comments are summarized as follows:

PRIOR YEAR RECOMMENDATION

None

CURRENT YEAR RECOMMENDATIONS

Document Reconciliation of Job Time Changes

Currently, there is a procedure whereby the employee prepares charge slips for each job worked in that pay period. These charge slips are reconciled to the employee's time card. This provides an excellent control to ensure that all employee time is properly charged. The reconciliation procedure is not well documented when a discrepancy is found that results in the employee's time being changed. The employee or a supervisor does not sign off on any changes made to the employee's timecard. We recommend that a supervisor review the time cards prior to submission.

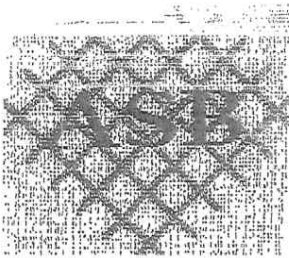
Vacation Accrual

During our audit of accrued vacation we noted that two employees had exceeded the allowable accrued hours. The financial manager agreed and said the Quickbooks payroll file would be updated so that when the vacation hours exceed the allowable hours, Quickbooks will create an exception report that can be used by management to monitor accrued vacation.

This letter is intended solely for the information and use of the Board of Directors, management, others within the organization and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Hathaway & Ksenzulak, LLP

January 27, 2009



ALISA SCHOLBERG BOOKKEEPING

1601 Puget St., Shelton, WA 98584

CELL 530-515-2128

alisascholberg@comcast.net

April 21, 2009

Lassen Family Services, Inc.
Po Box 701
Susanville, CA 96130

Karen:

This letter is in response to the audit findings for the fiscal year ending June 30, 2008. Per your request, I am providing this letter to address each of the adjusting journal entries made by the auditors.

There were a total of 13 adjusting entries made by the auditors. Of those 8 were related to fixed assets and depreciation. This is an area that we did not spend a lot of time reviewing. It is an area that can be easily corrected.

My first recommendation would be to start noting all bills with a quick memo as to what they are. Each bill is split by the grant, which leads to several line items in the reports. From that it is hard to identify what was purchased unless you drill down on each invoice. A quick memo identifying either computer or office paper would assist in the review. In addition, knowing that Lassen capitalizes any asset over \$1,000 with a life more than 1 year, you would know to record those as fixed assets rather than expenses.

The other piece of the assets is related to donations. If you maintain a folder or a list of all donated items that you record at the time of donation, it will make it easier to identify these at year end.

As for the remaining entries, 3 of those can be eliminated by reviewing our work. Confirming our trial balances tie at the end of the year and reviewing the bank reconciliations more completely. I am working with Kathi with regards to the Grants to better understand how they determine the balances and the final entry related to the legal settlement is item that should not resurface every year.

In looking back at my notes, we also didn't allow much time for the database review. You and I started talking in the middle of August and I began the database review in the middle of September. If my notes are correct, your audit was at the end of September. I would like to begin your review no later than the beginning of August to allow for a more complete review.

Below I have listed each audit adjustment along with a corrective action. Please review them and let me know if you have any questions.

1-KAH This entry for \$12,890.00 was made to correct the In Kind donations that were posted in reverse. The original entry was calculated correctly. This was a data input error.

Corrective Action: At the end of journal entry adjustments a trial balance should be printed for comparison purposes with the accountant to make sure all entries have been recorded properly.

2-BAK This entry for \$12,313.20 was to reverse an entry from 6/30/07 that corrects the cash balance at that time. A reversing entry should have been entered 7/1/07 to offset.

Corrective Action: Review all audit adjusting entries and post both the year end and reversing entries upon receipt rather than waiting until the next fiscal year end. If unsure whether an entry should be reversing check with the auditor.

3-BAK This entry for \$21,847.09 was to correct a deposit that cleared on 6/24/08 but was posted in the database with a date of 7/1/08. This item was addressed during my review and advised if the reconciliation was not corrected, it would be an audit adjustment.

Corrective Action: Request changes to be made and a new reconciliation should be sent for review to confirm adjustments.

4-RKH This entry for \$6,668.86 was to capitalize improvements made to and within the building.

Corrective Action: Review all property, office and equipment expense accounts in greater detail. Descriptions of items purchased should be noted on the bills in the database. Any item purchased or repair made over \$1,000 should be reviewed to determine if it is an expense or capital expenditure/improvement before being posted in the database.

5-BAK This entry for \$73,947.55 was to correct the Grant Receivable account.

Corrective Action: At this point, I am reviewing each of the grant accounts with the auditor to determine their findings for each grant. There are several factors that need to be considered when reconciling these and those include the dates of the grant, the parameters for the grant as well as when the expense was incurred. At this point we have had a spreadsheet to work from and it appears the information on the spreadsheet is not complete enough. Once we have completed the review we will set up a new system for tracking the grant receivable and revenue.

7-KAH This entry for \$1,800.00 was to reclassify new software posted to office expense as an asset.

Corrective Action: Any item purchased or repair made over \$1,000 should be reviewed to determine if it is an expense or capital expenditure/improvement before being posted in the database. In addition, memos or descriptions should be added to the bills in the database so they can be better identified.

8-RKH This entry for \$1,190.90 was to reclassify the payments on the new copier.

Corrective Action: Identify the purchase of new assets whether paid in full or purchased through lease. Any item purchased or repair made over \$1,000 should be reviewed to determine if it is an expense or capital expenditure/improvement before being posted in the database. Do not create new accounts without discussing with accountant.

9-RKH This entry for \$16,878.75 was to capitalize 3 new computers and book the additional depreciation for all assets.

Corrective Action: Identify the purchase of new assets whether paid in full or purchased through lease. Any item purchased or repair made over \$1,000 should be reviewed to determine if it is an expense or capital expenditure/improvement before being posted in the database. In addition, memos or descriptions should be added to the bills in the database so they can be better identified. Recalculate depreciation after all new assets have been recorded.

10-RKH This entry for \$11,500.97 was to record the purchase of the new copier.

Corrective Action: Identify the purchase of new assets whether paid in full or purchased through lease. Any item purchased or repair made over \$1,000 should be reviewed to determine if it is an expense or capital expenditure/improvement before being posted in the database. In addition, memos or descriptions should be added to the bills in the database so they can be better identified.

11-RKH This entry for \$23,994.00 was to record the disposal of assets.

Corrective Action: Review the depreciation schedule quarterly to identify any assets that have been junked or donated. Advise the accountant so the items can be removed before year end.

12-RKH This entry for \$4,000.00 was to record the donated value of the refurbished copier.

Corrective Action: Identify any items received whether through donation or purchase. All donated items need to be recorded in the system even if they do not exceed the \$1,000 asset limit. Maintain a folder of all donated receipts for year end purposes.

13-RKH This entry for \$1,359.04 was to reclassify the phone system to an asset from an expense account.

Corrective Action: Identify the purchase of new assets whether paid in full or purchased through lease. Any item purchased or repair made over \$1,000 should be reviewed to determine if it is an expense or capital expenditure/improvement before being posted in the database. In addition, memos or descriptions should be added to the bills in the database so they can be better identified.

14-KAH This entry for \$5,197.68 was to record the payroll taxes in connection with the legal settlement.

Corrective Action: Although this entry came up at the end of the audit, all details of legal settlements should be reviewed carefully and disclosed to the accountant. Any legal issues that pertain to employees should address both wages and payroll taxes at all times.

The guidelines for independent audits are continuing to get tougher and tougher. In order to maintain complete separation they are no longer allowed to book minor adjustments and are not even available for current year reviews. For this reason, they recommend a CPA to oversee your books and to be available to address issues when they arise.

I am not a CPA, nor am I up to speed in all areas of governmental accounting. I want to bring that to your attention as your board decides which course of action to take. I am more than happy to continue assisting Lassen Family Services in whichever manner you choose. I will continue working with Kathi at Hathaway & Ksenzulak to resolve the issues with regards to the Grants for 2008. Now is the time to answer all the questions and get a clear picture so that the same concerns are not repeated in 2009.

If you have any questions about the content of this letter, please feel free to contact me at the numbers listed above.

Sincerely,

Alisa R Scholberg

Alisa Scholberg



CALIFORNIA EMERGENCY MANAGEMENT AGENCY
LOCAL ASSISTANCE MONITORING BRANCH
3650 SCHRIEVER AVENUE
MATHER, CALIFORNIA 95655
PHONE: (916) 845-8120 FAX: (916) 845-8380

March 13, 2009

Ms. Darla Freeman
Executive Director
Lassen Family Services, Inc.
1306 Riverside Drive
Susanville, CA 96130

SUBJECT: INDEPENDENT AUDITOR'S REPORT FOR THE PERIOD ENDED
JUNE 30, 2008

Dear Ms. Freeman:

The California Emergency Management Agency (CalEMA) (formerly Governor's Office of Emergency Services) has reviewed the above subject audit report issued by Hathaway & Ksenzulak, LLP on January 27, 2009.

In reviewing the audit report, we noted Finding number 2008-1 which stated that the auditor posted a total of 12 audit adjustments that totaled \$197,350. CalEMA concurs with the auditor's recommendation that your organization hire someone with knowledge of United States Generally Accepted Accounting Principles and governmental accounting in order to prepare monthly financial reports and year-end unaudited financial statements. CalEMA would like to remind you that Recipient Handbook section 6400 et seq., provides information regarding the requirement for an adequate accounting system and structure.

In Finding number 2008-2, the auditor noted that checks were issued out of sequence and checks were missing from the paper records and the Quickbooks file. It was determined that check stock had been inadvertently left in the printer and other information had been printed on several checks. The auditor recommended that unusable checks be voided and kept in a file and that all voided checks be recorded in the Quickbooks program. In addition, it was noted that cash disbursements for payroll taxes and other items for which no invoice was available did not have any supporting documentation attached. Federal Regulations 2 CFR 215.21 (b) states, "*Recipients' financial management systems shall provide for the following . . . (3) Effective control over and accountability for all funds, property and other assets. Recipients shall adequately safeguard all such assets and assure they are used solely for authorized purposes. . . (7) Accounting records including cost accounting records that are supported by source documentation.*"

In addition to the Findings noted, the auditor's management letter included with the report indicates that the reconciliation procedure is not well documented when a discrepancy is found that results in an employee's timecard being changed. The employee or supervisor does not sign off on any changes made to an employee's timecard. OES Recipient Handbook Section 11331 states, "*All grant-funded personnel must maintain time cards/sheets that indicate the actual time worked on each OES project and account for all the time worked by the employee during the pay period. Time cards/sheets must be signed by the employee and contain the signed approval of the supervisor . . .*"

Ms. Darla Freeman
March 13, 2009
Page 2

This letter is to request a copy of your written response to the auditor's recommendations contained in the January 27, 2009, audit report and management letter. Your response should be submitted to CalEMA by no later than April 13, 2009. If you have any questions in this matter, please contact Mary LeClaire at (916) 845-8104 or Mary.LeClaire@oes.ca.gov.

Sincerely,


MICHAEL BALDWIN
BRANCH CHIEF

cc: Alan Logan, CalEMA Program Specialist
Stephanie Pedone, CalEMA Program Specialist
Kathy McCabe, CalEMA Program Specialist
Subgrantee files: AT07041209; DV07221209; RC07141209

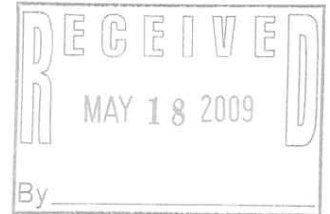


LASSEN FAMILY SERVICES, INC.

P.O. Box 701 • Susanville, CA 96130
1306 Riverside Drive

May 14, 2009

Michael Baldwin, Branch Chief
CalEma Local Assistance Monitoring Branch
3650 Schriever Avenue
Mather, California 96655



Subject: Response to Independent Auditor's Report for the period ended June 30, 2008
Subgrantee files: AT070041209; DV07221209; RC07141209

Dear Mr. Baldwin:

FINDING 2008-1: Please review the attached letter from Alisa Scholberg, referring to the 12 audit adjustments as noted in your letter dated March 13, 2009. Alisa Scholberg is the bookkeeper that our auditor recommended to assist LFS in preparing for the audit and to make journal entries prior to our annual audit. Alisa addresses each audit adjustment with a corrective action plan. Please note that some of the adjusting entries were not posted correctly and it has been determined that the bookkeeper needs to review these entries more thoroughly prior to the audit.

Regarding the recommended corrective action 14 KAH as indicated Alisa Scholberg, LFS maintains that all details of legal settlements were in fact disclosed to our auditor and there were no recommendations made at that time.

Lassen Family Services has located a name of a Financial Consultant who has extensive background in governmental accounting as well as knowledge of grant requirements. We have made contact with this person and have made arrangements for her to visit our site and review audit findings. Vada Bouffard was highly recommended to this agency and has 30 years experience in financial account and fiscal oversight, specifically in the area of non-profit organizations. Due to our limited funding and resources, we do not foresee being able to hire this person full time, however, plan to frequently utilize her services to assist us in fully executing the accounting principles as stated in the Recipient Handbook section 6400. Vada will also provide quarterly financial reviews for Lassen Family Services and assist us with year-end unaudited financial statements.

In reviewing the Recipient Handbook section 6400, we acknowledge that we are currently practicing the accounting principles as required to the best of our ability. It is recognized that LFS Financial Manager and Executive Director would benefit from assistance by a CPA or consultant to increase our knowledge and accounting skills to ensure that we are in full compliance with state guidelines and General Accepted Accounting Principles. We also acknowledge that the agency would benefit from improving the overall financial structure.

**Crisis
Line**
24 Hours

**Domestic
Violence
Assistance
Program**

**Sexual
Assault
Rape
Crisis Program**

**Court
Appointed
Special
Advocates**

**CHAT
Child Abuse
Treatment
Program**



FINDING 2008-2: *regarding checks issued out of sequence and checks missing paper records and the QuickBooks file:* LFS maintains that there was only one check missing supporting documentation. This check has been located as it was filed with the annual taxes. Currently all monthly bills attached to invoice and requests for checks are filed by month; the correction will include general monthly bills as well as billing for items such as taxes, etc. will be filed together in a given month to reflect all out going checks.

LFS maintains a file of all voided checks and currently plans to improve this system by recording individual voided checks in the QuickBooks program as well as keeping voided checks filed by date.

In regards to cash disbursements for payroll taxes and other items for which no invoice was available did not have any supporting documentation attached: Again, all payroll taxes do have supporting documentation and is filed in a payroll binder. A request for check form is now attached to support the documentation for payroll taxes. LFS will explore the option of printing a summary sheet from QuickBooks that will also support all documentation and be placed in the corresponding monthly file. In the event that a summary sheet cannot be printed, LFS Financial Manager will create a summary sheet.

Regarding changes made to employees timecard: LFS does maintain accurate time sheets which also coordinate with a time clock. Employees have always been required to sign their time sheets and document their allotted time for each OES project. Time Sheets have always been signed by both employee and employer. A procedure has been implemented on the Time Sheet for employees to initial any changes made to their time card by employer. (See sample enclosures).

Regarding Vacation Accrual: LFS Executive Director contacted Ellen Aldridge with Non-Profit Insurance Alliance California with whom they obtain the LFS Liability Insurance. NIAC provided documentation regarding the legal requirements of vacation accrual caps in California. LFS will abide by the Labor Code Section 227.3 regarding compliance in this area. (see attached documentation).

Please feel free to contact me or my Financial Manager at (530)257-5459 should you need further clarification or have additional questions.

Respectfully Submitted,

A handwritten signature in cursive script, reading "Darla J. Freeman".

Darla J. Freeman, Executive Director
Lassen Family Services



CALIFORNIA EMERGENCY MANAGEMENT AGENCY
LOCAL ASSISTANCE MONITORING BRANCH
3650 SCHRIEVER AVENUE
MATHER, CALIFORNIA 95655
PHONE: (916) 845-8120 FAX: (916) 845-8380

May 19, 2009

Ms. Darla Freeman
Executive Director
Lassen Family Services, Inc.
1306 Riverside Drive
Susanville, CA 96130

SUBJECT: AUDIT REPORT FOR THE PERIOD ENDED JUNE 30, 2008

Dear Ms. Freeman:

The California Emergency Management Agency (CalEMA) has reviewed Lassen Family Services' responses to the audit report shown above issued by Hathaway & Ksenzulak, LLP.

LFS' responses indicate that the issues identified in the audit report have been remedied in full or in progress with the assistance of an outside bookkeeper and Financial Consultant. Based on your responses, CalEMA considers these issues resolved.

Thank you for addressing the referenced audit issues in a timely and effective manner. If you have any questions regarding the above, please contact Deena Mount at: (916) 845-8111 or deena.mount@calema.ca.gov.

Sincerely,

A handwritten signature in dark ink, appearing to read "Michael Baldwin for".

MICHAEL BALDWIN, CHIEF
LOCAL ASSISTANCE MONITORING BRANCH

cc: Alan Logan, CalEMA Program Specialist
Stephanie Pedone, CalEMA Program Specialist
Kathy McCabe, CalEMA Program Specialist
Subgrantee File s: AT07041209, DV07221209, RC07141209

ORGANIZATION NAME LASSEN FAMILY SERVICES

FUNCTIONAL TIME SHEET

PAY PERIOD: _____

DAY OF THE MONTH	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	Total Hours
FUNDING SOURCE																
Cap-it																
CHAT																
H&HS																
JC																
MCH																
MCH-SARC																
SARC																
TOTAL HOURS																
VACATION LEAVE																
SICK LEAVE																
TOTAL LEAVE HOURS																
Earned RTO																
Used RTO																
Sub-Total Hours Worked																

CERTIFICATION: Attendance, absences and compensation time are accurate, verified and / or authorized in accordance with legal requirements and prescribed direction.

NAME: _____

TITLE: _____

EMPLOYEE SIGNATURE: _____

Date: _____

SUPERVISOR SIGNATURE: _____

Date: _____

Initial Here _____

Date: _____

RECONCILIATION	
HOURS WORKED:	
Vacation Leave Hrs.	
Sick Leave Hrs.	
TOTAL:	

By initialing this box I concur with changes made to this Functional Time Sheet

ORGANIZATION NAME LASSEN FAMILY SERVICES

FUNCTIONAL TIME SHEET

PAY PERIOD: _____

DAY OF THE MONTH	16	17	18	19	20	21	22	23	24	25	26	27	28	29	30	31	Total Hours
FUNDING SOURCE																	
Cap-it																	
CHAT																	
H&HS																	
MCH																	
MCH-SARC																	
SARC																	
TOTAL HOURS																	
VACATION LEAVE																	
SICK LEAVE																	
TOTAL LEAVE HOURS																	
Earned RTO																	
Used RTO																	
Sub-Total Hours Worked																	

CERTIFICATION: Attendance, absences and compensation time are accurate, verified and / or authorized in accordance with legal requirements and prescribed direction.

NAME:

TITLE:

EMPLOYEE SIGNATURE:

SUPERVISOR SIGNATURE:

By initialing this box I concur with changes made to this Functional Time Sheet

Initial Here

Date:

RECONCILIATION	
HOURS WORKED:	
Vacation Leave Hrs.	
Sick Leave Hrs.	
TOTAL:	

Darla Freeman

From: Ellen Aldridge [ealdridge@insurancefornonprofits.org]
Sent: Monday, March 23, 2009 5:59 PM
To: Darla Freeman
Subject: Vacation Accrual

Follow Up Flag: Follow up
Flag Status: Flagged

You asked me to provide you a statement regarding the legal requirements of vacation accrual caps in California.

Under the case *Suastez c. Plastic Dress Up* 31, Cal, 3d 774 (1982) the California Supreme Court held that promises of vacation accrual upon certain years of service were benefits that vested to the employee upon the requisite years of service that could not be forfeited. Thus, accrued vacation, which is now codified in Labor Code Section 227.3 had to be paid to terminating employees. The Department of Labor Standards Enforcement, the state agency that enforces vacation payout law, and related court decisions have held that an employer may set caps on the accrual of vacation - but that those caps must be "reasonable" such that the employee is allowed adequate opportunity to take vacation so as not to constitute a forfeiture, DLSE Interpretive Bulletin 86-3 (1986). As such, caps of one and one half times the annual accrual rate are typically found to be reasonable caps on vacation accrual.

Ellen Aldridge J.D.
Labor and Employment Risk Manager
Alliance Member Services (AMS) serving
Alliance of Nonprofits for Insurance, Risk Retention Group (ANI-RRG)
National Alliance of Nonprofits for Insurance (NANI)
Nonprofits Insurance Alliance of California (NIAC)
P.O.Box 8507, Santa Cruz 95061-8507
Tel: 800-359-6422 x 6078
Direct line: 831-621-6078
Fax: 831-621-6129
ealdridge@insurancefornonprofits.org

Thank you for taking advantage of our employment practices consultation service. We are pleased to be able to offer this risk management guidance and good practices in the area of employment practices. Please keep in mind that our advice is made available to you free of charge as a means of mitigating costs of future claims. However, we are not a law firm and our service is not legal advice. However, if the consultation issue later turns into litigation, the consultation with our Risk Manager should be considered confidential under the insurance litigation/attorney work product privilege.

<http://www.insurancefornonprofits.org>

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